REAL ESTATE

Vol. 3, No. 6 June 1990

OUTLOOK

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- The national economy grew at a 1.3% annual rate during the first quarter, according to the U.S. Department of Commerce. The figure is a significant downward revision of the government's earlier 2.1% estimate, made in late April. The primary reason for the slower rate of growth was that the level of business inventories fell further than had been thought earlier. With more sales out of inventories, the stage is set for inventroy rebuilding in the second quarter.

- The slowdown in the economy is particularly evident in the manufacturing sector, where employment has been cut back. For the twelve months ending in May 1989, about 300,000 jobs had been added to the nation's manufacturing payrolls. But by May 1990, however, this gain had been lost: Manufacturing employment recorded its thirteenth decline in the last fourteen months, with 311,000 workers displaced. Most of this weakness stems from the automobile market and related industries.

- One major source of the continued weakness in the economy is the Federal Reserve's efforts to curb inflation, which surged in the first quarter of 1990. Despite weakening demand in the economy, the Consumer Price Index grew at an 8.1 percent annual rate and the Producer Price Index topped that with a 9.1 percent annual rate.

- Starts of privately-owned housing units dropped to an annual rate of 1.245 million units in April. This pace is 5.8 percent below March's annual rate of 1.321 million units and 7.3 percent below the April 1989 annual rate of 1.343 million units. Relative to March's performance, starts of single-family homes bore the brunt of the decline, falling 7.5 percent, while the pace of starts for multi-family units remained the same.

- Sales of new homes declined for the fifth consecutive month in April, falling to an annual rate of 546,000 units. This marks a 21 percent decline in the sales rate since its recent November peak, and a 10.5 percent decline from its pace in April 1989. The sales rate for existing homes has also fallen from its peak in November, but by a less dramatic 7.2 percent.

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The Hole-in-the-Portfolio Gang Rides Again

by
John A. Tuccillo
Chief Economist
and Senior Vice President
Real Estate Finance

Never play poker with a man named "Doc"....never eat at a place called "Mom's"....and never lay down with someone who has more problems than you. And now you can add to this mini-litany of rules to live by, "Never trust a bank regulator." The whole housing industry is in the grip of a credit crunch that has a little bit to do with risk, a little bit to do with economic sluggishness and a lot to do with the need for regulators to redeem themselves for falling asleep at the wheel in the Southwest.

There are two parts to this story, and if Perry Mason were on this, we'd call them "The Case of the Strangled Builder" and "The Case of the Performing Nonperforming Loan". In the first Case, the home building industry was found critically wounded, strangled with a cord bearing the initials "FIRREA", and lying under a sign that said, "No ADC loans!". Of course, Perry immediately figured out that this was a case of attempted manslaughter, took on the Federal bank regulators as a client, and turned to Paul Drake for an explanation.

By now Paul had given up the private eye business and taken a joint degree in politics and economics to pass the time. He basically explained that in an attempt to check the abuses that had created the thrift mess, Congress had, through FIRREA, extended to thrift institutions the loans-to-one-borrower limitation that had applied to commercial banks. The intent was to limit the risk exposure that thrifts could undertake and thus place a restriction on potential double-dealing.

Of course, as Paul (also an ardent environmentalist) observed, this fishing expedition caught dolphins as well as tuna and effectively shut down the supply of construction capital to significant sections of the home building industry. Small builders were generally unaffected because their credit needs fell within the limits; large builders could develop other sources of credit outside the depository system. Unfortunately, there were large numbers of firms that do not fit either of these categories and suffer from the loss of credit.

Drake finished his explanation by putting on his forecaster's hat and announcing to the hushed courtroom that he was revising downward his prediction of housing starts in 1990 and advising all his clients (including the NAR) to do the same. Having heard the evidence, the judge found the defendant guilty and sentenced the defendant to make restitution by developing a phase-in program so that this credit restriction would not continue to cripple homebuilding and thus the entire economy. At last report, the defendant was showing little signs of remorse. It is unclear if this judgment will be honored and the victim still clings feebly to life.

The second case was even more baffling to Perry since there were no eyewitnesses and testimony was in direct conflict. Again enter Drake who had discovered that the bank regulators were on a cross country tear. This was in fact the same gang that had turned a blind eye while the thrift industry was being looted by fast-buck artists. Only now they were trying to overcompensate for their past offenses by becoming zealots. And the witch hunt was focussed on real estate lending.

The M.O. was always the same: they'd enter a bank, force a markdown of any real estate loans, require the bank to increase its loan loss reserve, and blow town. If the bank wanted to question this hit, there was no real recourse. Even banks that had not been directly hit were fearful enough to cut off real estate lending and further cripple the industry. They were tied up in chains, but the kind of chains that you can't see (with apologies to the Cookies).

So far, Perry has not been able to crack this one. The alleged perpetrators have simultaneously denied guilt and pleaded self-defense. They were, they claimed, just saving the bank from the consequences when real estate loans went bad (as they *surely* would). The gang remains at large, and a trail of devastation from New England down the East Coast marks their progress.

Well, all this is a bit fanciful, but not very far off the mark. A real estate sector in which demand is strong, interest rates moderate, and profit potential good is being pushed into regional recession by the arbitrary actions of a bank regulatory establishment that has chosen to impose its own sackcloth and ashes on the industry. Having been burned badly by their own inattention in the Southwest, they now stalk the land like some modern group of Flagellants, preaching repentance to a captive audience.

The stories that have come out of New England suggest a massive regulatory devaluation of real estate loans that are current in payment and strong on collateral. The "nonperforming performing" loan has now entered the glossaries of the banking business, and when you look it up you'll see the picture of an investment real estate project.

Is this forever? No, but while it lasts, the real estate sector will be much weaker and will intensify any recessionary influences that may develop in the economy. And that's *not* the function of the Federal regulators. And the longer it persists, the more financial markets will take over the real estate financing function held by banks. The banks will be left with what seems to be the regulators' dream--a portfolio of liquid assets and short term, low interest rate deposits. Come to think of it, that sounds a great deal like the old Postal Savings System, doesn't it?

Outlook for the Economy and Real Estate

THE ECONOMIC OUTLOOK

The national economy grew at a 1.3% annual rate during the first quarter, according to the U.S. Department of Commerce. The figure is a significant downward revision of the government's earlier 2.1% estimate, made in late April. The primary reason for the slower rate of growth was that the level of business inventories fell further than had been thought earlier. With more sales out of inventories, the stage is set for inventory rebuilding in the second quarter.

Restocking inventories sold during the first quarter may be the only source of strength for the economy in the second quarter. Virtually every other component of demand -- personal consumption, business investment, residential investment, net exports and government spending -- appears weaker in the current quarter. Consumer spending on services remains healthy, in contrast to consumer spending on goods. Spending on big-ticket items appears to be especially weak in the second quarter, with a 3.4% annual rate of decline in overall durable goods spending projected. This includes a 9.6% annual rate of decline in automobile purchases. Business fixed investment is expected to decline at a 2.8% annual rate, and residential investment is expected to follow a healthy first quarter with a 4.2% annual rate of decline in the second quarter. Little change is expected in the level of net exports, and restraint -- particularly on the state and local levels -- characterizes growth in government spending.

For the year, real GNP is expected to grow 1.7%, after growing 4.4% and 3.0% in 1988 and 1989, respectively. Little improvement is expected in 1991, as real GNP is projected to grow 1.9%.

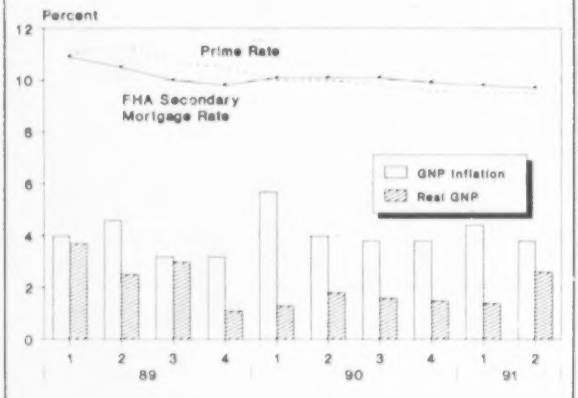
Consumer Spending on Durables Falls

With consumer expenditures making up about two-thirds of all spending in the economy, the health of the economy often rests with the consumer. Although incomes have been rising, purchasing power has been eroded by inflation, leading to a cutback in consumer purchases, particularly in big ticket items, as noted above. While the slowdown in the automobile sector has received a lot of press attention, consumers are also cutting back on other durable goods, items expected to last at least three years. The chart at right shows that slower consumer spending is not restricted to autos. The current weakness in the retail sales figures also indicates that consumers are wary.

Industrial Production Remains Sluggish

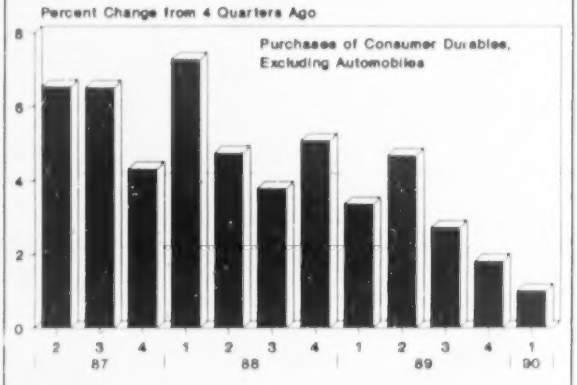
After propelling the economy through 1988 and most of 1989, the production of manufactured goods has slid over the past few months. Declining production of autos accounts for a large portion of the slowing growth rate, which is expected to recover modestly in the second half of the year. Relatively low inventories should prevent large cutbacks in many industries, and consequently the nation's overall production levels are not expected to actually decline. Industrial production should get a boost if, as expected, the exchange rate of the dollar resumes its decline in the second half of 1990. This would make U.S.-produced goods more competitive in world markets.

GRAPH 1: THE ECONOMIC OUTLOOK



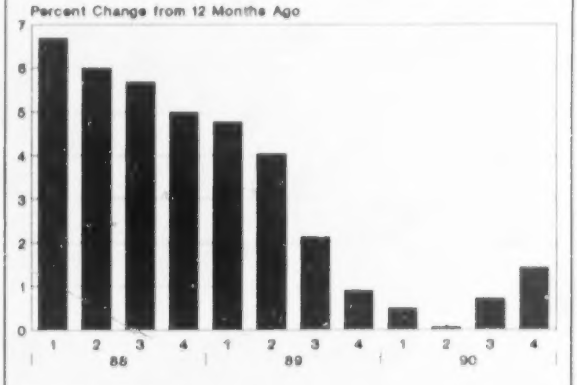
Source: Bureau of Economic Analysis; E NAR estimates.

GRAPH 2: CONSUMERS ARE MODERATING



Source: Department of Commerce

GRAPH 3: MANUFACTURING OUTPUT SLOWS



Source: Federal Reserve

Manufacturing Employment Hit Hard

The slowdown in the economy is particularly evident in the manufacturing sector, where employment has been cut back. In the twelve months ending in May, 1989, about 300,000 jobs had been added to the nation's manufacturing payrolls. But by May 1990, however, this gain had been lost: Manufacturing employment recorded its thirteenth decline in the last fourteen months, with 311,000 workers displaced. Most of this weakness stems from the automobile market and related industries.

Consumers apparently will not be providing any relief for autoworkers. Sales of domestically-produced autos in May ran at a 6.6 million annual rate, down slightly from April's rate. According to the forecast for 1990, fewer domestically-made cars will be sold -- about 6.8 million -- than in any year since the 1981-82 recession. By comparison, 7.1 million domestic autos were sold in 1989.

Employment growth in service industries, meanwhile, has remained robust. This has prevented a rise in the unemployment rate, which remains in the 5.3% to 5.4% range of the past 18 months. Rising wages that are not offset by improving productivity are expected to curtail the gains in employment over the next year, leading to a 5.9% unemployment rate by the second quarter of 1991.

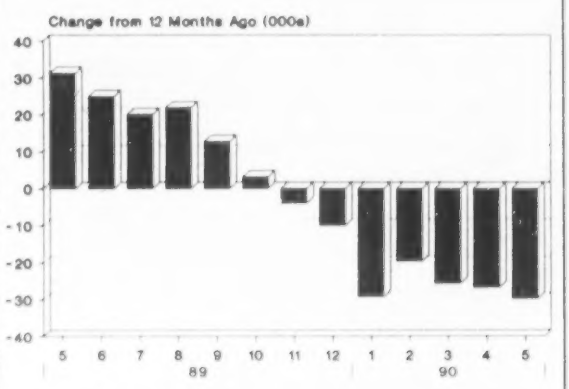
Productivity Growth Stalls

A more fundamentally serious problem in the current economic environment is the slowing growth in U.S. productivity. Graphed at right is the growth in nonfarm business productivity, which is expected to remain well below 1% during 1990. Since compensation is projected to grow about 5% in 1990, this productivity growth path implies an increase of about 4.5% in unit labor costs -- what producers pay to labor to produce one unit of output. Since labor is such a large share of total production costs, the steady growth in unit labor costs is one force contributing to inflationary pressure in the economy. Relief from this requires either lower compensation growth -- difficult when inflation is already outpacing wage growth -- or higher productivity.

Inflation Moderates a Bit But Remains Stubborn

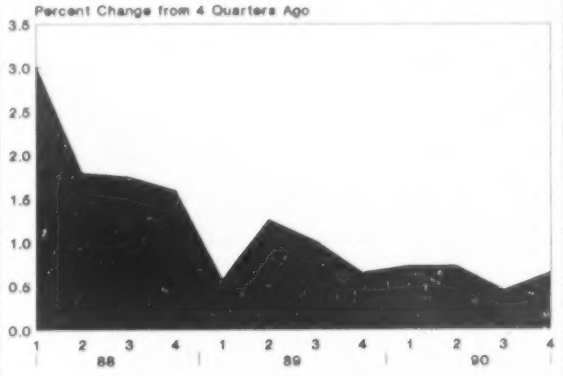
One major source of the continued weakness in the economy is the Federal Reserve's efforts to curb inflation, which surged in the first quarter of 1990. Despite weakening demand in the economy, the Consumer Price Index grew at an 8.1% annual rate and the Producer Price Index topped that with a 9.1% annual rate. For consumer prices, this was not simply related to the volatile food and energy components. Even after taking out these categories, which leaves the "core" rate of consumer inflation (solid line on the chart at right), the CPI nevertheless has jumped outside of the 4% - 5% band it has been growing at for the past five years. On the positive side, however, recent data indicates that inflation is unlikely to "break out" beyond the 5% annual rate. Nevertheless, it appears that the slowdown in the economy has had no significant impact on slowing inflation, at least so far. And, according to the forecast, it's not likely to. The CPI is projected to grow 4.9% in 1990 and 4.4% in 1991.

GRAPH 4: MANUFACTURING JOBS DISAPPEAR



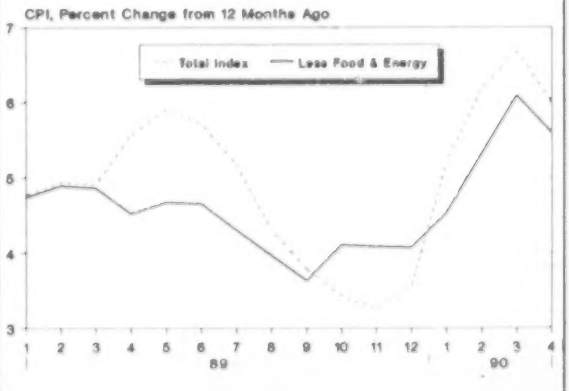
Source: Bureau of Labor Statistics

GRAPH 5: PRODUCTIVITY GROWTH SLIDES



Source: Department of Commerce

GRAPH 6: INFLATION STILL TROUBLING



Source: Bureau of Labor Statistics

HOUSING STARTS

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

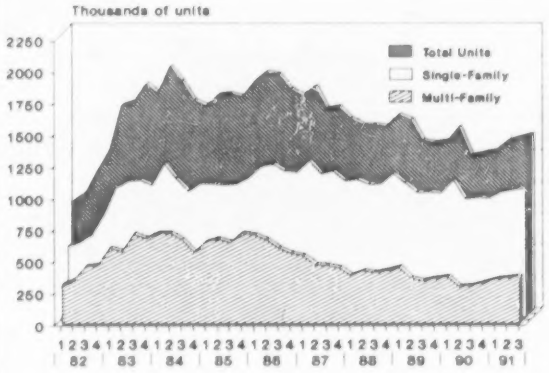
	Total	S-F	2-4	5 and up
Apr 1990	1245	934	48	263
Mar 1990	1321	1010	37	274
Feb 1990	1488	1154	42	292
Jan 1990	1568	1099	53	416
Dec 1989	1273	931	53	289
Apr 1989	1343	1029	62	252
Apr 1990 Changes From (%):				
Mar 1990	-5.8	-7.5	29.7	-4.0
Apr 1989	-7.3	-9.2	-22.6	4.4

REGIONAL DATA

	Northeast	Midwest	South	West
Apr 1990	127	298	480	340
Mar 1990	138	287	526	370
Feb 1990	224	293	581	390
Jan 1990	168	373	526	504
Dec 1989	138	267	440	428
Apr 1989	207	274	526	336
Apr 1990 Changes From (%):				
Mar 1990	-8.0	3.8	-8.7	-8.1
Apr 1989	-38.6	8.8	-8.7	1.2

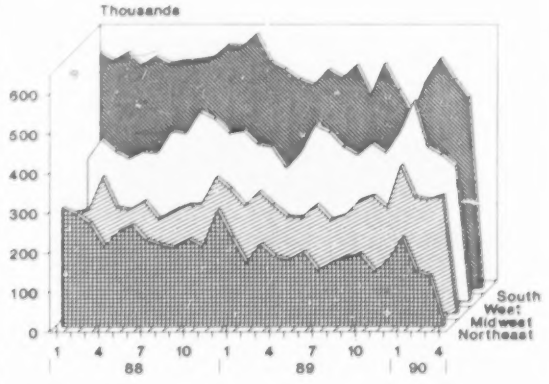
Source: Bureau of the Census; Construction Reports, Series C20

GRAPH 7: HOUSING STARTS



Source: Bureau of Census; Real Estate Outlook forecast

GRAPH 8: HOUSING STARTS BY REGION



Source: Bureau of Census

Starts of privately-owned housing units dropped to an annual rate of 1.245 million units in April. This pace is 5.8 percent below March's annual rate of 1.321 million units and 7.3 percent below the April 1989 annual rate of 1.343 million units. Relative to March's performance, starts of single-family homes bore the brunt of the decline, falling 7.5 percent, while the pace of starts for multi-family units remained the same over the two months at 311,000 units. The seemingly impressive 29.7 percent gain for multi-family structures of 2-4 units comes off of a small base and follows declines of similar magnitude in earlier months. A better indicator of the health of the 2-4 unit housing segment is the 22.6 percent decline in starts over the past twelve months. Overall, starts of all multi-family units are down about 1 percent over the pace of a year ago. Weakness in starts activity is expected to continue as builders are encountering scarce capital, due in large part to provisions of the the thrift bailout plan.

The downturn is concentrated in the Northeast, where housing was started at a 38.6 percent slower pace in April 1990 than in April 1989. While the pace of U.S. housing starts between these two months is off by 98,000 units, the Northeast is off its year-ago pace by 80,000 units -- thus accounting for some 82 percent of the slower pace in the nation. The Southeast is also off its year-ago pace, but only by 8.7 percent. In April 1990, both the Midwest and the West were ahead of their April 1989 rate, by 8.8 percent and 1.2 percent, respectively. Relative to their starts rate in March, only the Midwest accelerated the pace of housing starts in April, by 3.8 percent.

NEW HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

Apr	1990	546	Sep	1989	640
Mar	1990	555	Aug	1989	723
Feb	1990	606	Jul	1989	738
Jan	1990	613	Jun	1989	647
Dec	1989	633	May	1989	653
Nov	1989	687	Apr	1989	607
Oct	1989	636			

Apr 1990 Changes From (%):		Annual Totals:	
Mar 1990	-1.6	1988	676
Apr 1989	-10.5	1989	650

REGIONAL DATA

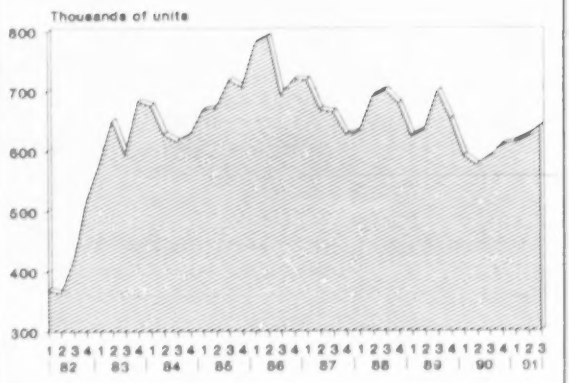
		Northeast	Midwest	South	West
Apr	1990	105	92	203	146
Mar	1990	89	94	216	156
Feb	1990	66	84	267	189
Jan	1989	96	104	228	186
Dec	1989	92	89	245	206
Nov	1989	96	117	263	211
Apr	1989	82	99	245	184
	1989	87	102	260	201
	1988	101	97	276	202

Apr 1990 Changes From (%):

Mar	1990	18.0	-2.1	-6.0	-6.4
Apr	1989	28.0	-7.1	-17.1	-20.7

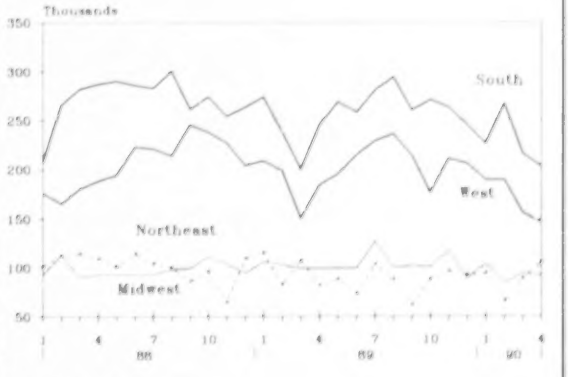
Source: Bureau of the Census; Construction Reports, Series C25

GRAPH 9: NEW HOME SALES



Source: Bureau of Census; Real Estate Outlook forecast

GRAPH 10: NEW HOME SALES BY REGION



Source: Bureau of Census

Sales of new homes declined for the fifth consecutive month in April, falling to an annual rate of 546,000 units. The 1.6 percent decline in April follows a revised 8.4 percent decline in March. This contributed to a 21 percent decline in the sales rate since its recent November peak and a 10.5 percent decline from its pace in April 1989. Sluggish economic growth, tightening credit availability, and declining affordability have all hurt new homes sales over the past several months.

So far this year, new home sales are running at an average annual pace of 580,000 units, 10.8 percent below 1989's total of 650,000 units and 14.2 percent below 1988's total of 676,000 units.

The Northeast built upon its 34.8 percent increase in March with an 18.0 percent increase in April. New homes were sold in the region at a 105,000-unit annual pace in April. This placed the region 28 percent ahead of its April 1989 sales rate. The April figures also show that the Northeast accounted for 19.2 percent of all U.S. new home sales, up from its 1989 share of 13.4 percent.

The other three regions experienced declines in the sales rate during April. The West was off 6.4 percent relative to March, the South dropped 6.0 percent, and the Miidwest declined 2.1 percent. In comparison to year-ago figures, the West was off by 20.7 percent, the South by 17.1 percent, and the Midwest by 7.1 percent.

EXISTING SINGLE-FAMILY HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

Apr	1990	3330	Sep	1989	3520
Mar	1990	3400	Aug	1989	3480
Feb	1990	3400	Jul	1989	3330
Jan	1990	3520	Jun	1989	3360
Dec	1989	3560	May	1989	3210
Nov	1989	3590	Apr	1989	3400
Oct	1989	3480			

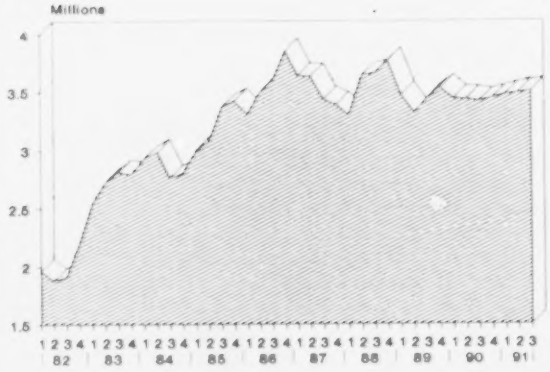
Apr 1990 Changes From (%):		Annual Totals:	
Mar 1990	-2.1	1989	3440
Apr 1989	-3.2	1988	3594

REGIONAL DATA

		Northeast	Midwest	South	West
Apr	1990	520	900	1310	580
Mar	1990	500	910	1360	630
Feb	1990	560	890	1310	650
Jan	1990	560	940	1400	570
Dec	1989	580	980	1390	610
Nov	1989	590	960	1430	640
Apr	1989	610	900	1300	630
	1989	589	919	1307	610
	1988	673	929	1350	642
Apr 1990 Changes From (%):					
Mar	1990	4.0	-1.1	-3.7	-7.9
Apr	1989	-14.8	0.0	0.8	-7.9

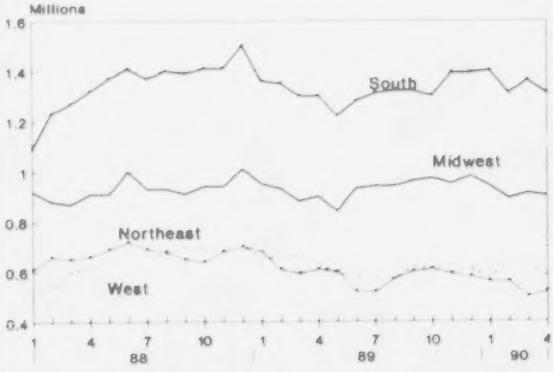
Source: NATIONAL ASSOCIATION OF REALTORS® Economics and Research Division

GRAPH 11: EXISTING HOME SALES



Source: NAR Economics & Research; Real Estate Outlook forecast

GRAPH 12: EXISTING HOME SALES BY REGION



Source: NAR Economics & Research

As with new home sales, the annual rate of existing home sales has failed to increase for the fifth consecutive month. The decline in the sales rate over this period is less dramatic for existing homes, which have fallen 7.2 percent since November, than for new homes, which have fallen 21 percent. In April, existing home were sold at a 3.33 million annual rate, 2.1 percent below March's 3.40 million rate. Sales in April were off by 3.2 percent from its year-ago level.

The supply of existing homes on the market shot up 10.8% during the month, leaving 2.56 million existing homes available for sale. This places the inventory of existing homes 2.0 percent higher than at the end of April 1989.

A 4.0 percent increase in existing home sales may mark the beginning of a rebound in the Northeast. Existing homes were sold at a 520,000-unit annual rate during April, up from March's 500,000 rate. The region's weakness is still shown in the 14.8 percent decline in sales activity over the past twelve months.

The other three regions experienced declines in the sales rate during April. The West dropped 7.9 percent to 580,000 units, the South fell 3.7 percent to 1,310,000 units, and the Midwest slipped 1.1% to 900,000 units. Relative to a year ago, the sales rate dropped 7.9 percent in the West and 0.8 percent in the South. The sales rate in the Miidwest remained unchanged from its April 1989 level.

SINGLE-FAMILY HOME PRICES

(In Dollars)

NATIONAL DATA

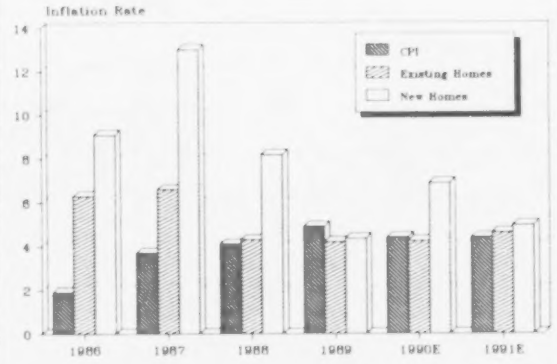
		Median		Average	
		Existing	New	Existing	New
Apr	1990	95,300	135,900	116,400	160,200
Mar	1990	96,300	119,400	119,500	144,100
Feb	1990	95,200	125,200	118,300	150,100
Jan	1990	96,300	125,000	120,000	151,700
Dec	1989	92,500	125,200	118,100	154,300
Apr	1989	92,900	116,700	117,900	144,700
	1989	93,100	120,000	118,100	148,800
	1988	89,300	112,500	112,800	138,300
Apr	1990				
Changes From (%):					
Mar	1990	-1.0	13.8	-2.6	11.2
Apr	1989	2.6	16.5	-1.3	10.7

REGIONAL DATA

		Northeast	Midwest	South	West
Apr	1990	140,700	75,300	85,700	134,900
Mar	1990	148,800	73,500	86,000	141,800
Feb	1990	143,400	74,100	85,200	143,300
Jan	1990	147,100	75,600	85,300	144,400
Dec	1989	143,400	72,500	82,700	135,200
Apr	1989	144,000	70,400	85,300	141,100
	1989	145,200	71,300	84,500	139,900
	1988	143,000	68,400	82,200	124,900
Apr	1990				
Changes From (%):					
Mar	1990	-5.4	2.4	-0.3	-4.9
Apr	1989	-2.3	7.0	0.5	-4.4

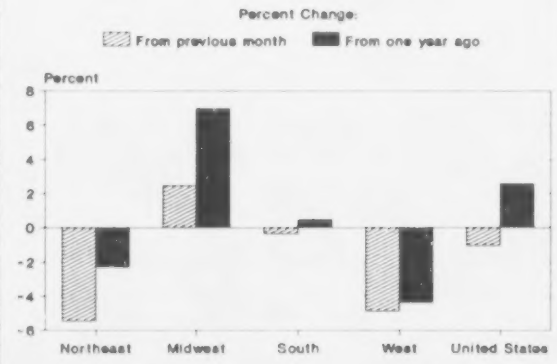
Source: NATIONAL ASSOCIATION OF REALTORS® Economics and Research Division

GRAPH 13: HOME PRICES



Source: Bureau of Census; E Real Estate Outlook forecast

GRAPH 14: HOME PRICES BY REGION



Source: NAR Economics & Research; Real Estate Outlook forecast

The median price for existing homes slipped 1.0 percent during April to $95,300, reflecting the sluggishness of the housing market. Relative to a year ago, the median price has risen $2,400, or 2.6%. The median price fell the furthest in the Northeast, where in April the median price hit $140,700, a drop of $8,100 from its level in March. This decrease of 5.4 percent was almost matched by the West's 4.9 percent decline to $134,900. The South experienced a modest decline of 0.3 percent to $85,700, while in the Midwest the median price grew by $1,800 to $75,300, a gain of 2.4 percent.

The dramatic 13.8 percent increase in the median price of new homes during April indicates the thinness of the housing market for lower-priced new homes. The median price, $135,900, stands 16.5 percent above its year-ago level.

The average prices displayed much the same pattern as the median prices: While the average price of new homes rose sharply, the average price of existing homes dipped. The average new home price was $16,100 higher in April than it was in March, an increase of 11.2 percent. For existing homes, the average price fell by $3,100, a decline of 2.6 percent.

Robert D. Barr
Forecasting & Policy Analysis Division

Asian Homeowners: A Growing Segment of the U.S. Housing Market

Just within the past couple of years, Asians have become the nation's fastest-expanding ethnic minority. Though Asians still number only around 5 million, or 2 percent of the total U.S. population, their ranks have been swelling at an unprecedented rate since the reform of immigration laws in 1965. Last year alone, more Asian immigrants came to the U.S. than in the three decades from 1931 to 1960. More than half settled in California, which has the nation's largest Asian population. The flood of new arrivals is not likely to diminish in the foreseeable future. About 1 million Asians have already applied and received preliminary clearance to come to America. Taking into account natural increase (birth minus deaths) and continuing immigration, by the year 2010, the Asian population in the U.S. is expected to more than double.[1]

Like other ethnic immigrants before them, Asians perceive homeownership as an important milestone in their assimilation. The number of foreign-born homebuyers is gradually increasing as immigrants who came here 5 to 10 years ago are becoming financially stable. And, those that will be arriving in the first part of the 90's will be ready to buy within the next decade. As Asian immigrants become more settled in their new homeland, they will become increasingly important players within the real estate market.

Asian Arrivals to the U.S.

There has been a constant flow of Asians migrating to the U.S. for more than a century. (See Table 1). According to the 1980 Census, over 95 percent of all Asian-Americans came from or had ancestors from China, Phillipines, Japan, India, Korea and Vietnam. More recently, people from the Philippines, China, India, and Korea have come in growing numbers. A surge of refugees arrived in the U.S. in 1975 after the fall of Saigon. Thousands more refugees came from Cambodia and Laos. Other than refugees, other immigrants have been businesspeople, tourists and students who adjusted to permanent resident status without having to leave and re-enter the U.S. Most of Asian immigration now is from students and from those who want to join family members who have already migrated to the U.S.

The 1965 immigration law abolished the national origins quota system, replacing it with a system giving preference to family members of persons already in the U.S. and workers with skills needed in the U.S. Under the new system, the number of Asian immigrants to the U.S. increased dramatically. For the Eastern hemisphere, the annual quota was set at 170,000 with no more than 20,000 from any one country. This is a substantial portion of the world wide annual quota of 270,000 with 20,000 from any one country. Also admitted beyond this numerical limitation are spouses, parents, and unmarried children under the age of 21 of U.S. citizens plus refugees. By 1981, some 60 percent of the Asian immigrants admitted to the U.S. came outside the numerical limitations.[2]

Estimating the growth of the Asian population in the United States is an inexact science. So much depends on the vagaries of immigration policies and diplomatic ties between nations. Projections made 20 years ago are not accurate today because few analysts could account for the impact of the 1965 immigration law changes or the impact of the Vietnam war.

Not only is information on future trends for Asian immigrants tentative, but data on their current living and working conditions is sketchy, as well. Some evidence is available from the 1980 Census, but this is obviously an inadequate source of information for the

Table 1

MAJOR COUNTRIES OF ANCESTRY FOR ASIAN-AMERICAN, 1980, 1985 AND PROJECTIONS FOR 1990 AND 2000

Ethnic Group	1980	1985*	1990	2000
Chinese	23.4%	21.0%	19.3%	17.1%
Filipinos	22.6	20.4	21.5	21.0
Japanese	20.6	14.9	12.4	8.7
Asian Indians	11.2	10.2	10.4	10.2
Koreans	10.3	10.5	12.4	13.4
Vietnamese	7.1	12.3	13.1	26.0
TOTAL	**95.3**	**89.3**	**89.3**	**86.4**

*Estimates for September 30, 1985

SOURCE: U.S. Bureau of the Census, Statistical Abstract of the United States: 1989 (109th edition) Washington, D.C., 1989, Table 45 p. 39; Robert W. Gardner, Bryant Robey, and Peter C. Smith, Asian Americans: Growth, Change, and Diversity, Vol. 40, No. 4 (Washington, D.C.: Population Reference Bureau, 1985), Table 1; and Leon F. Bouvier and Anthony Agresta, "The Future Asian Population of the United States," in James T. Fawcett and Benjamin V. Carino (eds.), Pacific Bridges: The New Immigration from Asia and the Pacific Islands (Staten Island, New York: Center for Migration Studies of New York, Inc., 1987), Table 12.2, p. 292.

bulk of new immigrants. Further, the 1980 Census does not differentiate between new Asian immigrants and Asians who have been in the country for generations. Information on Asians in the work force, education trends, discrimination, and their economic status has been compiled by the U.S. Commission on Civil Rights in The Economic Status of Americans of Asian Descent: An Exploratory Investigation. The sources of this publication however, have also been derived from the data available in the 1980 Census, so the data are somewhat dated and do not represent the current status of Asians that migrated to the United States during the decade of the 80's. The 1987 American Housing Survey provides some indication of the housing conditions of Asians in the United States. However, the main problem with this data source is that like the 1980 Census, it does not differentiate between new Asian immigrants and Asian-Americans. Thus, there are considerable gaps in our knowledge about how Asian immigrants are faring in their new country.

Asian Earning Power

For recent Asian immigrants, economic adjustment to life in the U.S. seems to rely on strong family support. Observers of Asian success suggest that their considerable reliance on family leads to rapid self sufficiency. It is common within Asian immigrant families to pool resources for housing particularly in their first years in the U.S. The 1980 Census shows that the households of the most recently arrived immigrants include much higher proportions of relatives compared to Asian-Americans in general. Of these families where two or more are working, only 7 percent fall below the poverty level.[3] The pattern is for family members to move out on their own once they become self-supporting.

Geographically, Asian immigrants are concentrated in urban areas. They reside in disproportionate concentrations in the Northeast and the West, especially California and Hawaii. California ranks first for both Asians and Americans in general, but in 1980, 36 percent of all Asian immigrants lived there, compared to 10 percent of the total U.S. population. The difference was even greater in Hawaii. Nearly half the population of Hawaii is Asian.[4]

Most immigrants flock to cities and Asians are no exception. Among the six major Asian groups, 92 percent lived within Metropolitan Statistical Area boundaries in 1980, compared with 75 percent of the total U.S. population. As they become more established in the U.S., like immigrants in the past, the Asian population will most likely gradually move out of the cities.

Because Asians are residing primarily in high cost of living areas, they tend to have higher nominal earnings. The U.S. Commission on Civil Rights reports that the average family incomes of most Asian groups in 1980 exceeded the average income of U.S. families. An examination of the figures suggests some of the reasons.

Most Asian immigrants have a higher level of education than the U.S. average, but like other minorities and immigrants before them, they are found disproportionately in the low-paying service occupations. However, unlike other minorities, they are also concentrated at the top of the occupational hierarchy in professional, managerial and executive positions. For example, in 1980, 24 percent of employed Americans held jobs as managers, professionals, or executives, but the proportion of foreign-born Asian Americans in this high-status category was much higher. Those Asians holding professional positions are broken down as follows: 26 percent for Filipinos, 28 percent for Japanese, 30 percent for Chinese, and 47 percent for Asian Indians.[5] The figures were only lower for Koreans and Vietnamese. The lower income for Koreans may be due to the fact that they primarily went into their own grocery business, like those who work street corners in New York or Los Angeles. As for the Vietnamese, a good portion are refugees who are generally less educated and work as farmers speaking little English.

Asian earning power has risen faster than any prior surge of immigrants to the U.S.[6] An important factor underlying higher Asian family incomes is the added work efforts from wives. Not only are Asian women more likely to work than U.S. women on average, they tend to earn more, as well. Table 2 indicates that except for Japanese-Americans, almost all Asian women are as likely or more likely to participate in the labor force as compared to U.S. women. Among Filipino-Americans, almost 85% of married women work. The average incomes of Filipino and Korean-American women exceed the average income of U.S. women by

Table 2

SOCIAL & ECONOMIC BACKGROUND, 1980

	Chinese	Filipino	Japanese	Indian	Korean	Vietnamese
Income*						
Average family income	22,560	23,690	27,350	24,900	20,460	12,840
% of U.S. avg.	0.99	1.11	0.95	1.15	0.94	0.60
Asian Women*						
% in work force	65	83	27	51	61	54
Income relative to U.S. avg.	1.12	1.59	1.26	1.11	1.22	0.94

*Foreign-born

SOURCE: U.S. Commission on Civil Rights, The Economic Status of Americans of Asian Descent: An Exploratory Investigation, 1988.

almost 50 and 30 percent respectively.

Among four of the six Asian groups, poverty rates for foreign-born families are much higher than the U.S. average. The U.S. Commission on Civil Rights reports the poverty rates of foreign-born Chinese, Japanese, Korean, and Vietnamese families exceed those of U.S. average, which is 9.3 percent, whereas foreign-born Filipino and Indian Americans are less likely to be poorer than the U.S. average. Yet, it was just indicated that the average family income of Asians in America is higher than U.S. average. How is it that the poverty rate is higher, as well?

An explanation for this apparent paradox is that the poverty rate includes those Asian immigrants that have recently arrived in the States. Many of these immigrants take jobs that they are overqualified for to make ends meet. The poverty rate is especially high for the recent immigrants of Vietnam and Indochina, both lacking education and English skills. Over time, the poverty rate drops off. The unemployment rate for Vietnamese and Indochinese refugees, for example, was near 86 percent when they first arrived and after four years dropped considerably to 30 percent. [7]

Despite initial poverty, data from the 1980 Census shows that Asians are very little burden on state and federal public resources. With the exception of the Vietnamese refugees, a very small percentage of Asians will accept public assistance. See Table 3.

Table 3

U.S. AVERAGE AND ASIAN-AMERICAN RELIANCE ON PUBLIC ASSISTANCE AND SOCIAL SECURITY IN 1979
(Percent of households with)

Population	No Income From Own Earnings	Public Assistance	Social Security
U.S. Avg.	19.7	14.7	21.50
Japanese	9.5	4.2	18.5
Chinese	10.2	6.6	13.9
Filipino	7.0	6.6	13.9
Korean	8.1	6.2	5.7
Asian Indian	16.3	4.5	16.9
Vietnamese	20.1	28.1	5.2

SOURCE: Bureau of the Census, 1980 Census of Population, PC80-1-C1, General Social and Economic Characteristics, Tables 128, 138, and 164.

Aspiring to Homeownership

Among the 1.4 million Asian households in 1987, there were 638,000 homeowners, making the overall homeownership rate about 45 percent. This is lower than the U.S. average which was 63.5 percent.[8] In fact, compared to U.S. average, the homeownership rates for Asian homeowners are lower in every age group and for each income category. Partly, this is attributable to the fact that some Asians come from a country where 30 year mortgages do not exist. Some believe that if they do not have the cash, they cannot buy a house. However, immigrants appear to have an intense desire to own a piece of land, a house, or other real property. The number of foreign-born buyers is gradually increasing, and will continue to, as immigrants who came here five to 10 years ago become financially stable. Families who bought their homes a few years ago are now moving up the housing ladder.

The median home equity for Asian homeowners was about $70,000 in 1987, compared to $47,000 for all homeowners.[9] Interestingly, while they have greater equity in the homes, they also have greater debt, with a mortgage-to-total property value for Asian homeowners of 39.2 percent compared to 22.8 percent for U.S. average. The estimated median mortgage debt for Asian homeowners was $48,600 in 1985 -- almost three times as much as the $17,000 median for all homeowners.[10] Asians will save 20 to 50% for a down payment but still have a high mortgage debt.

The explanation lies in the fact that Asian immigrants tend to buy more expensive homes than the average first-time homebuyer. Most are living on the West Coast or in the East, where prices are high. In these particular regions, the average sales price of new one-family houses in 1987 was $146,000 in the Northeast, $133,000 in the West, but only $96,000 in the South and $75,500 in the Midwest.

There are no government homeownership programs that are specifically designed for Asian immigrants. However, there are some community outreach groups in cities where Asians dominate. These are usually headed by Asians already established in the community and assist newcomers who tend to feel more comfortable working with someone who speaks their native language. These groups sponsor seminars to explain the home-buying process. They are usually taught by foreign-born brokers in local churches or community centers, and attract clients through advertisements placed in Asian magazines and newspapers, local radio stations and in general, by word of mouth. These programs attempt to dispel the belief among Asian immigrants that if they do not have the cash they cannot buy. They are introduced to such concepts as down payment, credit laws and contract proceedings.

Conclusion

In the decades to come, virtually all Americans will feel the dual impact of Asian immigration and investment. Americans not directly touched by these

trends will feel them indirectly. Asians are remaking our work-place and neighborhoods. As Asian immigrants become assimilated to the U.S. and American culture, they will become increasingly influential in everything from business and politics to law and academia, and of course, real estate. For Americans who can capitalize on ties between East and West, the Pacific boom will carry growing opportunity.

by
Lorraine Voss
Forecasting and Policy Analysis Division

1.Robert H. Gardner, Bryant Robey, and Peter C. Smith, Asian Americans: Growth, Change, and Diversity, Vol. 40, No. 4, Population Reference Bureau, 1985, p. 3.

2.Leon F. Bouvier and Robert W. Gardner, Immigration to the U.S. The Unfinished Story, Vol. 41, No. 4, Population Reference Bureau, 1986, p.13.

3.Gardner, Robey, and Smith, p.21.

4.The Economic Status of Americans of Asian Descent: An Exploratory Investigation, U.S. Commission on Civil Rights Clearinghouse Publication 95, October 1988, pgs. 47-50.

5.Ibid, pgs. 28-43.

6.Gardner, Robey, Smith, pgs. 34-36.

7.Ibid.

8.Tabulations of the American Housing Survey, 1987.

9.Ibid.

10.Ibid.

U.S. ECONOMIC OUTLOOK — JUNE 1990

	QUARTERS								YEARS				
	ACTUAL		FORECAST						ACTUAL		FORECAST		
	89.4	90.1	90.2	90.3	90.4	91.1	91.2	91.3	1988	1989	1990	1991	1992
AGGREGATE ECONOMY													
Gross National Product (billions of dollars)	5340	5431	5509	5583	5655	5737	5829	5921	4881	5234	5545	5877	6269
% Change	4.6	7.0	5.8	5.5	5.3	5.9	6.6	6.5	7.9	7.2	5.9	6.0	6.7
% Change (w/out inflation)	1.1	1.3	1.8	1.6	1.5	1.4	2.6	2.5	4.4	3.0	1.7	1.9	2.7
Consumer Price Inflation (CPI)	4.0	8.1	3.4	4.2	4.5	4.6	4.4	4.4	4.1	4.8	4.9	4.4	4.4
GNP Inflation (GNP Deflator)	3.2	5.7	4.0	3.8	3.8	4.4	3.8	3.9	3.3	4.2	4.2	4.0	3.9
Unemployment Rate - Civilian	5.3	5.3	5.5	5.6	5.8	5.8	5.9	5.8	5.5	5.3	5.5	5.8	5.6
Civilian Employment-Household Basis (millions)	117.8	118.1	118.4	118.5	118.4	118.6	118.9	119.3	115.0	117.3	118.3	119.1	120.7
Percent change	1.0	1.0	1.1	0.3	-0.2	0.7	0.9	1.2	2.3	2.0	0.9	0.7	1.4
Index of Industrial Production	108.1	108.4	108.9	109.2	109.6	110.0	110.9	111.9	105.4	108.1	109.0	111.5	115.9
Manufacturing Capacity Utilization	82.9	82.6	82.1	82.0	82.1	82.3	82.7	82.9	83.9	83.9	82.2	82.7	83.7
Domestic Auto Sales	6.2	7.0	6.5	6.7	6.8	6.8	7.0	7.0	7.5	7.1	6.8	7.0	7.1
Federal Tax Receipts (NIPA) as % of GNP	19.8	20.0	20.0	20.0	20.1	20.4	20.4	20.4	19.9	20.0	20.0	20.4	20.4
Federal Expenditures (NIPA) as % of GNP	22.7	23.1	22.7	22.6	22.5	22.6	22.5	22.3	22.9	22.8	22.7	22.4	21.8
Deficit(NIPA)	-156.0	-172.0	-153.0	-145.0	-136.0	-126.0	-120.0	-112.0	-145.0	-148.0	-151.0	-115.0	-85.0
as % of GNP	-2.9	-3.2	-2.8	-2.6	-2.4	-2.2	-2.1	-1.9	-3.0	-2.8	-2.7	-2.0	-1.4
REAL ESTATE MARKETS													
HOME SALES													
Total Single-Family Home Sales (thousands, single-family resales plus 97 percent of single-family starts)	4495	4494	4347	4342	4363	4440	4474	4497	4646	4419	4387	4480	4442
Percent change – year ago	-7.8	0.5	1.0	-1.5	-2.9	-1.2	2.9	3.6	0.0	-4.9	-0.7	2.1	-0.8
Existing Single-family Home Sales (thousands)	3537	3440	3435	3420	3445	3475	3490	3505	3594	3440	3435	3496	3474
Percent change – year ago	-6.2	0.0	2.8	-0.7	-2.6	1.0	1.6	2.5	1.9	-4.3	-0.1	1.8	-0.6
Housing Starts (thousands)	1347	1459	1234	1252	1270	1346	1376	1399	1491	1386	1304	1384	1411
Percent change – year ago	-12.7	-3.1	-8.9	-6.3	-5.7	-7.7	11.5	11.7	-8.6	-7.0	-5.9	6.1	1.9
Single-Family Units	988	1087	940	950	946	995	1014	1023	1085	1009	981	1014	998
Percent change – year ago	-12.4	2.2	-5.2	-4.4	-4.2	-8.4	7.9	7.6	-5.9	-7.0	-2.8	3.4	-1.6
Multi-Family Units	359	371	293	301	323	351	362	375	405	376	322	369	412
2-4 Family Units	53	44	34	35	38	41	42	44	58	55	38	43	48
Percent change – year ago	-15.3	-25.4	-34.7	-36.1	-28.0	-5.5	23.2	24.3	-10.0	-5.7	-31.0	14.6	11.6
5+ Family Units	306	327	259	266	285	309	319	330	346	321	284	326	363
Percent change – year ago	-13.1	-14.5	-16.1	-7.0	-6.8	-5.5	23.2	24.3	-15.7	-7.3	-11.4	14.6	11.6
New Single-Family Home Sales (thousands)	652	591	576	590	610	615	625	640	676	650	592	633	640
Percent change – year ago	-4.1	-3.5	-9.4	-15.6	-6.4	4.0	8.5	8.5	0.4	-3.8	-8.9	6.9	1.2
Mobile Homes Shipped (thousands)	189	196	187	190	187	192	194	197	217	198	190	195	198
HOME PRICES													
Existing Home Prices - Median $(1000)	92.7	95.9	96.7	97.3	98.1	99.0	100.2	101.8	89.3	93.1	97.0	101.1	105.8
Percent change – year ago	6.2	4.5	4.0	2.5	5.9	3.2	3.6	4.6	4.3	4.3	4.2	4.2	4.6
New Home Prices - Median $(1000)	124.4	123.2	124.1	125.6	128.0	131.7	133.5	134.3	112.5	120.0	125.2	133.9	140.5
Percent change – year ago	9.8	5.8	3.8	5.0	2.9	6.9	7.6	6.9	7.7	6.7	4.4	6.9	5.0
FINANCIAL MARKETS													
Long-Term Interest Rates													
30-yr Fixed Rate Mortgage (FHA Secondary)	9.8	10.1	10.1	10.1	9.9	9.8	9.7	9.5	10.3	10.3	10.1	9.6	9.4
1-year ARM (effective rate)	8.8	8.6	8.4	8.3	8.3	8.4	8.5	8.5	8.5	9.3	8.4	8.5	8.5
Corporate AAA Bond Rate	8.9	9.2	9.2	9.2	9.0	8.9	8.8	8.6	9.7	9.3	9.1	8.7	8.5
Government Bond Rate	7.9	8.4	8.5	8.4	8.3	8.2	8.1	8.0	9.0	8.4	8.4	8.0	7.9
Short-Term Interest Rates													
Federal Funds Rate	8.6	8.3	8.1	7.9	7.8	7.7	7.6	7.6	7.6	9.2	8.0	7.6	7.5
3-month T-Bill Rate	7.7	7.8	7.6	7.5	7.3	7.1	7.0	6.9	6.7	8.1	7.6	7.0	6.8
Prime Rate	10.5	10.0	10.0	9.8	9.6	9.5	9.5	9.5	9.3	10.9	9.8	9.5	9.4
Discount Rate	7.0	7.0	7.0	7.0	6.7	6.5	6.5	6.5	6.2	6.9	6.9	6.5	6.2
Value of the U.S. Dollar (Trade-Weighted Avg.)	97.3	93.1	91.9	90.4	88.3	87.3	86.9	87.1	92.8	98.5	91.0	87.2	87.8
Percent change	-12.2	-16.0	-5.0	-6.5	-8.9	-4.7	-2.0	1.0	-4.3	6.2	-7.7	-4.2	0.7

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy.
Assumptions and simulations by Dr. John Tuccillo and Robert Barr.

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